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Attorneys for Nominal Defendant Zoran Corporation

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

IN RE ZORAN CORPORATION
DERIVATIVE LITIGATION,

Case No. CV 06-05503 WHA

**STIPULATION AND ~~[PROPOSED]~~
ORDER RE AMENDED NOTICE OF
PROPOSED SETTLEMENT**

This Document Relates To:

ALL ACTIONS

Lead Plaintiff Gerald del Rosario ("Plaintiff"); defendants Uzia Galil, Levy Gerzberg, Karl Schneider, Raymond A. Burgess, James D. Meindl, James B. Owens, Jr., Arthur B. Stabenow, and Camillo Martino (the "Individual Defendants"); and nominal defendant Zoran Corporation ("Zoran," and collectively with the Individual Defendants, "Defendants"), by and through their respective counsel of record, hereby agree and stipulate as follows:

STIPULATION

WHEREAS, the parties executed a Stipulation of Settlement for this action on May 29, 2008 (the "Settlement");

WHEREAS, the Court granted preliminary approval for the Settlement at a hearing on June 11, 2008;

1 WHEREAS, the Court set an August 18, 2008 hearing date for consideration of Lead Plaintiff's
2 Motion for Final Approval of the Stipulation of Settlement (the "Settlement Hearing");

3 WHEREAS, the Court approved the parties' Notice of Proposed Settlement (the "Original
4 Notice") on June 12, 2008, subject to three conditions;

5 WHEREAS, the parties have amended the Original Notice to satisfy the Court's conditions;

6 WHEREAS, the parties have also amended Section VI of the Original Notice (entitled "WHAT
7 CLAIMS THE SETTLEMENT WILL RELEASE") to conform its language exactly to the description
8 of released claims in the Settlement, as approved by this Court;

9 WHEREAS, the parties have also changed the phone number given in the Original Notice to
10 contact Lead Plaintiff's counsel to a toll-free phone number, in order to make such contact less onerous
11 for Zoran's shareholders;

12 WHEREAS, the parties have also inserted instructions to banks, brokers and other nominees
13 for beneficial owners of Zoran stock as to how to facilitate the notification of such beneficial owners of
14 the Settlement;

15 WHEREAS, the parties have also corrected certain typographical errors in the Original Notice,
16 including the title of the operative Complaint;

17 WHEREAS, the parties have attached the Notice of Proposed Settlement, amended as
18 described above, as Exhibit A to this Stipulation (the "Amended Notice"), and have attached as Exhibit
19 B a redline displaying the revisions made to the Original Notice to create the Amended Notice, for the
20 Court's convenience;

21 WHEREAS, Lead Plaintiff maintains that the Amended Notice should be mailed no later than
22 June 23, 2008, to ensure that shareholders have sufficient time to receive and review the Amended
23 Notice and Proposed Settlement in advance of the deadline for filing objections;

24 THEREFORE, it is hereby stipulated and agreed, subject to the approval of the Court, that the
25 following Order be entered:

- 26 1. The Amended Notice is hereby approved;
- 27
- 28

2. Lead Plaintiff must file and serve his Motion for Final Approval of the Proposed Settlement and for attorneys' fees and expenses no later than July 18, 2008 (30 calendar days before the Settlement Hearing);

3. Any shareholder wishing to object to any term of the Proposed Settlement or the requested attorneys' fees and expenses must so object no later than August 4, 2008 (14 calendar days before the Settlement Hearing);

4. Lead Plaintiff must file his reply brief, including any response to timely filed objections, no later than August 11, 2008 (seven calendar days before the Settlement Hearing);

5. Defendants must file and serve any papers in support of Final Approval no later than August 11, 2008 (seven calendar days before the Settlement Hearing);

6. Any objector intending to appear at the Settlement Hearing must file his or her notice of intent to appear no later than August 11, 2008 (five business days before the Settlement Hearing).

Dated: June 19, 2008

AKIN GUMP STRAUSS HAUER & FELD LLP

By /s/
Steven S. Kaufhold
Attorneys for Nominal Defendant Zoran
Corporation

Dated: June 19, 2008

COOLEY GODWARD KRONISH LLP

By /s/
John C. Dwyer
Attorneys for Defendant Levy Gerzberg

Dated: June 19, 2008

MORGAN LEWIS & BOCKIUS

By /s/
John Henry Hemann
Attorneys for Defendant Karl Schneider

1 Dated: June 19, 2008

FENWICK & WEST LLP

2 By _____ /s/

Susan S. Muck

3 Attorneys for Defendants Uzia Galil, Raymond A.
4 Burgess, James D. Meindl, James B. Owens, Jr.,
5 and Arthur B. Stabenow

6 Dated: June 19, 2008

HELLER EHRMAN LLP

7 By _____ /s/

Sara B. Brody

8 Attorneys for Defendant Camillo Martino

9
10 Dated: June 19, 2008

KELLER ROHRBACK LLP

11 By _____ /s/

Juli E. Farris

12 Attorneys for Lead Plaintiff Gerald del Rosario

13
14 PURSUANT TO THE ABOVE STIPULATION, IT IS SO ORDERED.

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16 DATED: June 30, 2008.

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Honorable William H. Alsup
United States District Judge

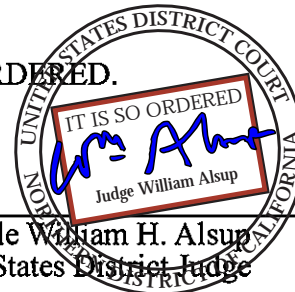


EXHIBIT A

1 LYNN LINCOLN SARKO
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Telephone: (602) 248-0088
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10 **Attorneys for Lead Plaintiff Gerald del**
11 **Rosario**

12 UNITED STATES DISTRICT COURT
13 NORTHERN DISTRICT OF CALIFORNIA
14 SAN FRANCISCO DIVISION
15

16 IN RE ZORAN CORPORATION
17 DERIVATIVE LITIGATION

No. CV 06-05503 WHA
DERIVATIVE ACTION

18 This Document Relates To:
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ALL ACTIONS

**NOTICE OF PROPOSED SETTLEMENT OF
DERIVATIVE ACTION AND OF
SETTLEMENT HEARING**

**NOTICE OF PROPOSED SETTLEMENT OF DERIVATIVE ACTION
AND OF SETTLEMENT HEARING**

TO: ALL HOLDERS OF THE COMMON STOCK OF ZORAN CORPORATION ("ZORAN" OR THE "COMPANY"). PLEASE READ THIS NOTICE CAREFULLY AND COMPLETELY. YOUR RIGHTS WILL BE AFFECTED. IF YOU HOLD ZORAN COMMON STOCK FOR THE BENEFIT OF ANOTHER, PLEASE TRANSMIT THIS NOTICE TO SUCH BENEFICIAL OWNER.

I. WHY YOU ARE RECEIVING THIS NOTICE

The purpose of the Notice is to advise you that the above-captioned action relating to Zoran (the "Action") is now pending in the United States District Court of Northern District of California (the "Court") and that the parties thereto have entered into a settlement (the "Settlement"), subject to Court approval, which would fully, finally and forever resolve the Action on the terms and conditions summarized in this Notice.

A hearing (the "Settlement Hearing") will be held on August 18, 2008, at 2:00 p.m., before the Honorable William H. Alsup, at the courthouse of the United States District Court of Northern District of California, 450 Golden Gate Avenue, San Francisco, California, CA 94102, for the purpose of considering: (i) whether the Settlement is fair, reasonable, adequate, and in the best interests of the parties, and should be approved by the Court; (ii) whether to enter a Judgment giving final approval to the Settlement ("Judgment"), dismissing the Action with prejudice, and effectuating the releases described below; (iii) whether Lead Plaintiff's Counsel's application for attorneys' fees and expenses should be granted if the Court approves the Settlement; and (iv) such other necessary and proper matters. It is not necessary that any Zoran shareholder appear at the Settlement Hearing.

The parties believe that the terms of the Settlement are fair, reasonable, and adequate. The parties have concluded that further litigation of the Action could be protracted, disruptive and costly, and have taken into account the uncertainty and risks inherent in any litigation, especially in complex shareholder litigation like the Action. The parties therefore believe it is desirable that the Action be fully and finally settled in the manner described in the Stipulation of Settlement signed by the parties on May 29, 2008 (the "Stipulation of Settlement").

THE FOLLOWING RECITATION DOES NOT CONSTITUTE THE FINDINGS OF THE COURT. IT IS BASED ON THE STATEMENTS OF THE PARTIES AND SHOULD NOT BE UNDERSTOOD AS AN EXPRESSION OF ANY OPINION OF THE COURT AS TO THE MERITS OF ANY OF THE CLAIMS OR DEFENSES ASSERTED BY ANY OF THE PARTIES.

II. WHAT THE ACTION IS ABOUT

The Action is a shareholder derivative case brought derivatively for the benefit of nominal defendant Zoran against certain members of the Company's board of directors and various of its current and former executive officers (collectively, the "Individual Defendants," and together with nominal defendant Zoran, the "Defendants"). The Individual Defendants are Uzia Galil, Levy Gerzberg, Karl Schneider, Raymond A. Burgess, James D. Meindl, James B. Owens, Jr., Arthur B. Stabenow and Camillo Martino.

1 On May 16, 2006, the Center for Financial Research and Analysis ("CFRA") issued a report
 2 identifying dozens of companies, including Zoran, that were purportedly "at risk" for having
 3 backdated stock options. On May 23, 2006, Zoran announced that the Company's management
 4 and its outside counsel had conducted an internal review with respect to the options grants
 5 identified by CFRA. On July 3, 2006, Zoran announced that its Board of Directors had formed a
 6 Special Committee of outside directors ("Special Committee") to conduct an independent
 investigation into whether there had been any improper backdating of stock option grants since
 Zoran's initial public offering in 1995. The Special Committee retained independent legal
 counsel in connection with the investigation.¹

7 In June and September 2006, three shareholder derivative actions alleging claims under federal
 8 and state law based on backdating of stock options were filed in the Northern District of
 9 California against the Individual Defendants and Zoran as a nominal defendant.² On December 8,
 2006, the Court consolidated the derivative actions into the above-captioned Derivative
 Litigation, and on January 18, 2007, Mr. del Rosario was appointed Lead Plaintiff.³

10 On February 20, 2007, the Company reported that as a result of the Special Committee
 11 investigation, recorded grant dates for a small number of stock option grants would need to be
 12 remeasured for financial accounting purposes. The Board also concluded that there was no
 13 intentional misconduct by Zoran's senior management. Zoran subsequently restated its historical
 financial statements to reflect the adjusted measurement dates, taking a non-cash compensation
 charge of \$11.7 million.

14 Lead Plaintiff filed a Consolidated Complaint in the Derivative Litigation on March 14, 2007. In
 15 the Consolidated Complaint, Lead Plaintiff asserts claims under Section 10(b), Section 14(a) and
 16 Section 20(a) of the Securities Exchange Act of 1934, as well as claims under state law for breach
 of fiduciary duty, constructive fraud, abuse of control, corporate waste and gift, gross
 17 mismanagement, unjust enrichment, and rescission. The Complaint alleges, among other things,
 18 that from at least 1997 through 2005, the Individual Defendants engaged in unlawful or improper
 practices related to Zoran's granting and accounting for stock options (including, but not limited
 to, "backdating" or otherwise misdating or improperly timing option grants, and not complying

19 ¹ Zoran also announced that it had received an informal inquiry from the Securities and Exchange
 20 Commission ("SEC") requesting documents related to its stock option granting practices, as well
 21 as a grand jury subpoena from the office of the U.S. Attorney for the Northern District of
 California requesting documents regarding stock options. On November 2, 2007, the SEC
 22 notified Zoran that the Staff's investigation had been terminated and that no enforcement action
 23 against Zoran or any of its officers, directors or employees has been recommended to the
 Commission. Similarly, no action has been taken by the U.S. Attorney's office with respect to
 Zoran or its officers, directors or employees.

24 ² One of these actions, *NECA-IBEW v. Galil, et al*, No. 06-cv-3742, was voluntarily dismissed on
 25 December 4, 2006. In addition, a putative class action, alleging violations of the Securities
 Exchange Act, based upon the same facts and circumstances giving rise to the Derivative
 Litigation, filed in this Court on August 10, 2006, was voluntarily dismissed on March 20, 2007.

26 ³ A nearly identical state court derivative action based upon the same facts and against
 27 substantially the same defendants is currently pending in Santa Clara Superior Court, entitled *In*
 28 *re Zoran Derivative Litigation*, Case No. 1:06CV073498 (the "State Derivative Litigation"). The
 Santa Clara Superior Court has stayed the State Derivative Litigation in light of this action until
 further order of the Superior Court.

1 with the Company's option plans); this conduct allegedly resulted in false or misleading financial
2 statements, other statements and proxies, improper and/or additional compensation expenses and
3 tax liabilities, and other expenses, including but not limited to those relating to the Special
4 Committee's investigation and April 20, 2007 restated financials. In addition, Lead Plaintiff has
subsequently alleged that certain practices and option grants not specifically asserted in the
Consolidated Complaint violated the Company's stock option plans or are otherwise actionable.

5 Defendants thereafter moved to dismiss the Derivative Litigation on grounds that Lead Plaintiff
6 had failed to make a pre-suit demand on Zoran's Board of Directors or to allege facts sufficient to
7 establish that such a demand would have been futile. The Court ruled that Lead Plaintiff's
8 Consolidated Complaint alleged facts sufficient to excuse demand at the pleading stage. The
Court dismissed certain causes of action, however, on standing, statute of limitations, and other
9 grounds. Thereafter, Defendants filed Answers and Affirmative Defenses, and the parties
commenced discovery.

10 On September 11, 2007, the parties participated in Court-ordered mediation proceedings before
11 the Honorable Charles A. Legge of JAMS. Thereafter, the parties continued their settlement
12 discussions and had numerous face-to-face meetings and telephone conferences, with and without
13 Judge Legge, in furtherance of a possible resolution of the Derivative Litigation. Among other
things, the parties exchanged extensive information relating to the grants challenged in the
Derivative Litigation, and Lead Plaintiff conducted substantial discovery, including, but not
limited to, receipt of over one million pages of documents and depositions of key witnesses.

14 By motion dated February 26, 2008, Lead Plaintiff moved for preliminary approval of a proposed
15 stipulation of settlement involving the cancellation or repricing of certain stock options, corporate
16 governance remedial measures and other provisions, including payment of a fee to Lead
Plaintiff's Counsel. By Order dated April 7, 2008, the Court denied the motion for preliminary
approval.

17 From March through mid-May, the parties completed substantial additional discovery, including
18 depositions by Lead Plaintiff's Counsel of additional party and non-party witnesses and the
19 production to Lead Plaintiff of thousands of additional documents. Thereafter, the parties
20 engaged in further settlement negotiations, both in person and telephonically. All of the
21 negotiations were conducted in good faith and at arm's length, incorporating the guidance
provided by the Court in its April 7 Order. All parties were represented by counsel experienced
in litigation of this type. As a result of these settlement discussions, the parties entered into the
22 Stipulation of Settlement on May 29, 2008, which provided the terms for settling the Action.

23 **III. DEFENDANTS' POSITION WITH RESPECT TO SETTLEMENT**

24 The Individual Defendants expressly have denied and continue to deny all charges of wrongdoing
25 or liability against them arising out of any of the conduct, statements, acts or omissions alleged,
26 or that could have been alleged, in the Derivative Litigation. The Individual Defendants have
denied and continue to deny that any of their conduct relating to the granting, exercise or
27 disclosure of options was wrongful. The Individual Defendants have denied and continue to deny
that any intentional backdating of stock option grants ever occurred. The Individual Defendants
also have denied and continue to deny the allegations that Zoran suffered damages as a result of
28 the conduct alleged in the Derivative Litigation, or that Lead Plaintiff or Zoran have any right of

1 recovery whatsoever. To the contrary, the Individual Defendants have asserted that at all relevant
2 times, they have acted in the utmost good faith and in a manner they reasonably believed to be in
the best interests of Zoran and its shareholders.

3 Nonetheless, the Individual Defendants recognize that defense of the Derivative Litigation has
4 usurped—and would continue to usurp—valuable management time and resources, will continue
to disrupt Zoran's business, and will continue to impose enormous financial burdens on Zoran.
5 The proposed settlement offers to provide Zoran a substantial amount of cash immediately, which
Zoran can use to fund its operations and research and development. The Individual Defendants
6 also have taken into account the uncertainty and risks inherent in any litigation, especially in
7 complex cases such as this one. The Individual Defendants enter into this Stipulation to obtain a
full and final release, directly and/or by operation of law, of all claims that are or could have been
8 asserted against them in the Derivative Litigation, in the State Derivative Litigation, or in any
other federal or state litigation asserting Released Claims. The Individual Defendants further
9 intend that the Judgment entered in the Derivative Litigation will fully incorporate the terms of
this Settlement and will have preclusive effect as to the Released Claims to the fullest extent of
10 any applicable federal or state law. As a result, the Individual Defendants have determined that it
is appropriate and desirable that the Derivative Litigation be settled in the manner and upon the
11 terms and conditions set forth in this Stipulation. The Individual Defendants make this decision
voluntarily, and under no compulsion to do so.

12
13 Nominal Defendant Zoran enters into this Stipulation based on its belief that this Settlement
provides substantial benefit to the Company and its shareholders. Specifically, the Company will
14 receive a multi-million dollar payment and will also benefit from the cancellation and repricing of
certain stock options previously granted to the Individual Defendants. Moreover, the proposed
15 Settlement will permit the Company, its Directors, Officers and employees to focus on serving
Zoran customers and creating value for Zoran shareholders rather than diverting resources to
16 protracted and costly litigation. Finally, the Company believes that this Settlement is desirable
because it provides the Company with a substantial recovery without the risk of an adverse
17 litigation result.

18 **IV. LEAD PLAINTIFF'S POSITION WITH RESPECT TO SETTLEMENT**

19
20 Lead Plaintiff believes that the claims asserted in the Derivative Litigation have merit and that the
evidence developed to date, which includes both information developed by Lead Plaintiff's
21 Counsel independently and in the course of extensive discovery in the litigation, supports those
claims. Lead Plaintiff and Lead Plaintiff's Counsel recognize, however, the expense and length
22 of continued proceedings necessary to prosecute the Derivative Litigation against the Defendants
through trial and, potentially, through appeals. Lead Plaintiff has also taken into account the
23 uncertain outcome and the risk of litigation and inherent delay in resolution of the claims that
result from protracted proceedings. Counsel for the Lead Plaintiff are mindful of the inherent
24 problems of proof and possible defenses to the claims asserted in the derivative lawsuit,
including, but not limited to statutes of limitation, good faith reliance on outside counsel and
25 auditors, failure to satisfy the demand requirement of Rule 23.1, failure to establish any breach of
duty, failure to establish causation, and failure to establish damages.

26
27 Lead Plaintiff and his Counsel also considered: (1) the arguments and evidence regarding
28 Defendants' good faith reliance on outside counsel and auditors; (2) the size of Zoran's

1 restatement in relation to Zoran's overall revenues and the broad time period covered; (3) the
2 nature of the circumstances giving rise to the measurement date errors; (4) the scope and depth of
3 the investigation conducted by the Special Committee, with the assistance of experienced
4 counsel; (5) the Special Committee's conclusion that no intentional wrongdoing occurred; and (6)
5 the SEC's decision to terminate its investigation without further action. In order to thoroughly
6 evaluate each of these claims, Lead Plaintiff and his Counsel engaged in extensive analysis of
7 evidence produced during the litigation, and the parties exchanged additional information subject
8 to Rule 408, as part of their settlement negotiations. Lead Plaintiff and his Counsel also weighed
9 the potential for denial of insurance coverage on some or all of Lead Plaintiff's claims, the
10 additional costs to the Company were it necessary to litigate those issues, and the uncertainty as
11 to what damages Zoran would ultimately be entitled to recover even if Lead Plaintiff were to
12 prevail on some or all of the asserted claims. In particular, Lead Plaintiff weighed the benefit to
13 Zoran of obtaining nearly \$3.4 million in cash (less awarded attorneys' fees and costs), plus other
14 consideration, as set forth below, against the possibility that the Individual Defendants might
15 prevail on dispositive motions or at trial, in which case Zoran would receive no cash or other
16 consideration from this litigation.

17 Based on Lead Plaintiff's evaluation and the evaluation of his Counsel, Lead Plaintiff has
18 determined that it is desirable to settle the Derivative Litigation on the terms set forth in this
19 Stipulation. Lead Plaintiff believes that the proposed Settlement of the Derivative Litigation will
20 promote the best interests of Zoran and its shareholders and that such terms reflect a fair,
21 reasonable and adequate outcome of the Derivative Litigation.

22 **V. WHAT THE SETTLEMENT PROVIDES**

23 The terms and conditions of the proposed Settlement are set forth in the Stipulation of Settlement
24 described above. The Stipulation of Settlement has been filed with the Court. The following is
25 only a summary of its terms.

26 Under the proposed Settlement, the Company has agreed to implement and/or continue various
27 corporate governance measures, including measures related to the granting and administration of
28 stock option grants. These measures are described in the Stipulation of Settlement and represent
multi-tiered and comprehensive corporate governance practices involving stock option and other
compensation and related disclosure and accounting policies. As additional consideration for this
Settlement, a number of the measures previously adopted and the additional measures, identified
in Attachment A to the Stipulation of Settlement, shall continue for a period of at least three
years.

In addition, (1) the Individual Defendants shall cause to be paid the amount of \$3,395,000 in cash
to Zoran, of which \$296,250 will be paid by Levy Gerzberg, \$98,750 will be paid by Karl
Schneider, and the remainder will be paid to the Company through applicable insurance;
(2) Defendants Gerzberg, Schneider and Stabenow, under no obligation to do so but in order to
facilitate this Settlement, have agreed to reprice 101,438 options to the adjusted exercise price
reflected in the Company's April 20, 2007 restatement of financials; and (3) Defendant Gerzberg
has voluntarily agreed to cancel certain fully vested options, as calculated in the Stipulation of
Settlement and using the Black-Scholes methodology with the variable inputs set forth in Exhibit
A to the Stipulation.

1 **VI. WHAT CLAIMS THE SETTLEMENT WILL RELEASE**

2 Pursuant to the terms of the Stipulation of Settlement, the Action shall be dismissed with
3 prejudice and Lead Plaintiff, on his own behalf individually and derivatively on behalf of Zoran
4 and Zoran's shareholders, and Zoran shall have, and by operation of the Judgment shall be
5 deemed to have, fully, finally, and forever released, relinquished and discharged all Released
6 Claims against the Released Persons and all claims that were made or could have been made
7 against the Released Persons arising out of, relating to, or in connection with the prosecution,
8 defense, Settlement or resolution of the Action, including Unknown Claims. Each of the
9 Released Parties shall be deemed to have, and by operation of the Judgment shall have, fully,
10 finally, and forever released, relinquished and discharged Lead Plaintiff and Lead Plaintiff's
11 Counsel from all claims (including Unknown Claims), arising out of, relating to, or in connection
12 with the institution, prosecution, assertion, Settlement or resolution of the Action or the Released
13 Claims.

14 "Released Persons" means each and all of the Released Parties and the Related Persons.

15 "Released Parties" means Zoran and the Individual Defendants Raymond A. Burgess, Uzia Galil,
16 Levy Gerzberg, Camillo Martino, James D. Meindl, James B. Owens, Jr., Karl Schneider and
17 Arthur B. Stabenow. "Released Parties" also includes the former defendants in this action who
18 were dismissed by the Lead Plaintiff without prejudice, pursuant to a tolling agreement: Aharon
19 Aharon, Paul Goldberg, Isaac Shenberg, and Alex Sinar.

20 "Related Persons" means each of a Released Party's present or former spouses, heirs, executors,
21 estates, administrators, any entity in which a Defendant and/or any member(s) of that Defendant's
22 immediate family has or had a controlling interest, any members of their immediate families, or
23 any trust of which any Defendant is or was the settler or which is or was for the benefit of any
24 Defendant and/or member(s) of his or her family, each of the Defendants' present and former
25 attorneys, legal representatives, and assigns in connection with the Derivative Litigation, and all
26 past and present directors, officers, agents, underwriters, controlling shareholders, investment
27 bankers, advisors, accountants, auditors, servants, employees, affiliates, predecessors, successors,
28 parents, subsidiaries, divisions, joint ventures and joint venturers, related or affiliated entities,
assigns and attorneys for nominal defendant Zoran and their counsel.

"Released Claims" means any and all claims, rights, demands, causes of action, suits,
accountings, matters, and issues, including, but not limited to, those arising under federal or state
contract, statute, or common law, that have been asserted or could have been asserted against the
Released Persons by Zoran or by shareholders suing derivatively on behalf of Zoran, in the
Derivative Litigation, based on or arising from the facts, transactions, events, occurrences, acts,
disclosures, statements, omissions or failures to act alleged in the Derivative Litigation or closely
related thereto, up to and through the date of the filing of the Consolidated Complaint in the
Derivative Litigation on March 14, 2007, including all matters alleged in, or which could have
been alleged in, any of the complaints filed in the Derivative Litigation (including Unknown
Claims).

"Unknown Claims" means any Released Claim which any Settling Party or Related Person does
not know or suspect to exist in his, her or its favor at the time of the release of the Released
Persons which, if known by him, her or it, might have affected his, her or its Settlement with and

1 release of the Released Persons, or might have affected his, her or its decision not to object to this
2 Settlement.

3 **VII. WHAT ATTORNEYS' FEES PLAINTIFF'S COUNSEL WILL SEEK**

4 In connection with the Settlement, Plaintiff's Counsel will apply to the Court for an award of
5 actual attorneys' fees and costs incurred in prosecuting the Action, through Final Judgment and
6 any post-Judgment litigation, based upon their usual and customary fees. Lead Plaintiff's
Counsel has agreed not to seek a "fee multiplier," and will seek only his actual costs, estimated to
be no more than \$500,000, and will waive any fees that exceed one million dollars.

7 **VIII. WHEN AND WHERE THE SETTLEMENT HEARING WILL BE HELD AND**
8 **HOW TO OBJECT TO THE SETTLEMENT IF YOU WISH TO DO SO**

9 Prior to deciding whether or not to approve the Settlement, the Court will hold a Settlement
10 Hearing, which the Court may adjourn without further notice other than announcement at such
11 Settlement Hearing or subsequent adjournment. The Court may approve the Settlement with or
without modification agreed to by the parties, and with or without further notice to Zoran's
shareholders.

12 Zoran shareholders who comply with the procedures set forth below for objecting or making an
13 appearance (personally or through counsel) may be heard to the extent allowed by the Court
14 regarding the fairness, reasonableness, and adequacy of the Settlement at the Settlement Hearing
15 to be held before the Honorable William H. Alsup on August 18, 2008, at 2:00 p.m., at the
16 courthouse of the United States District Court of Northern District of California, 450 Golden Gate
Avenue, San Francisco, California, CA 94102. You are not required to retain your own counsel,
but if you choose to do so it will be at your own expense. A shareholder wishing to assert an
objection to the Settlement must, at least fourteen (14) days prior to the Settlement Hearing:

17 (1) file with the Clerk of the Court proof of ownership of Zoran common stock, including
18 the number of shares of Zoran Common Stock held and the date of purchase, and provide a
19 statement that indicates the nature of such objection, any legal support and/or evidence that
20 such shareholder wishes to bring to the Court's attention or introduce in support of such
objection, and any documentation in support of any objection; and

21 (2) simultaneously serve copies of such notice, proof, statement and documentation,
22 together with copies of any other papers or briefs such shareholder files with the Court, in
23 person or by mail, upon counsel listed below, provided that if service is made by mail,
electronic mail and facsimile service shall be made on counsel listed below no later than
fourteen (14) days before the date of the Settlement Hearing:

24 Juli E. Farris
25 Keller Rohrback L.L.P.
26 1201 Third Avenue, Suite 3200
27 Seattle, WA 98101-3052
28 *Counsel for Lead Plaintiff*

Susan Muck
Fenwick & West LLP
555 California Street, Suite 1200
San Francisco, CA 94104
*Counsel for Aharon Aharon, Raymond A. Burgess, Uzia Galil, Paul
Goldberg, James D. Meindl, James B. Owens, Jr., Isaac Shenberg,
Alex Sinar, and Arthur Stabenow*

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Counsel for Nominal Defendant Zoran Corporation

John Dwyer
Cooley Godward Kronish LLP
Five Palo Alto Square
3000 El Camino Real
Palo Alto, CA 94306
Counsel for Dr. Levy Gerzberg, Ph.D.

John Hemann
Morgan, Lewis & Bockius LLP
One Market, Spear Street Tower
San Francisco, CA 95105
Counsel for Karl Schneider

Sara B. Brody
Heller Ehrman LLP
333 Bush Street
San Francisco, CA 94104
Counsel for Camillo Martino

Any shareholder who does not timely make his, her, or its objection to the Settlement shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, reasonableness, or adequacy of the proposed Settlement, the Plaintiff's application for attorneys' fees and expenses, and shall otherwise be bound by the Judgment to be entered on the releases given.

Any objector who properly and timely files and serves a written objection may also appear at the Settlement Hearing either in person or through counsel retained at the objector's expense. Objectors or their attorneys intending to appear at the Settlement Hearing must effect service of a notice of intention to appear setting forth, among other things, the name, address and telephone number of the objector (and, if applicable, the name, address and telephone number of the objector's attorney) on counsel listed above (at the addresses set out above), provide a statement that indicates the basis for such appearance, the identities of any witnesses that such shareholder plans to call at the Settlement Hearing, and file it with the Court by no later than five (5) days before the date of the Settlement Hearing. Filing and service may be effected on the Court and

1 counsel by mail, provided facsimile service is made on counsel listed above by no later than five
2 (5) days before the date of the Settlement Hearing. Any objector who does not timely file and
3 serve a notice of intention to appear in accordance with this paragraph shall not be permitted to be
heard at the Settlement Hearing, except upon a showing of good cause and excusable neglect.

4 **IX. NOTICE TO BANKS, BROKERS, OR OTHER NOMINEES**

5 If you hold any Zoran securities purchased during the Class Period as nominee for a beneficial
6 owner or owners, then, within ten (10) days after you receive this Notice, you are requested either
7 to: (1) send a copy of this Notice by first class mail to all such Persons; or (2) provide a list of the
names and addresses of such Persons to the Administrator:

8 In re Zoran Corporation Derivative Litigation
9 c/o The Garden City Group, Inc.
P.O. Box. XXXX
10 Seattle, WA 98104

11 If you choose to mail the Notice yourself, you may obtain from the Administrator (without cost to
you) as many additional copies of these documents as you will need to complete the mailing.

12 Regardless of whether you choose to complete the mailing yourself or elect to have the mailing
13 performed for you, you may obtain reimbursement for or advancement of reasonable
14 administrative costs actually incurred or expected to be incurred in connection with forwarding
the Notice and which would not have been incurred but for the obligation to forward the Notice,
15 upon submission of appropriate documentation to the Administrator.

16 **X. HOW TO GET FURTHER INFORMATION**

17 Further information regarding the Action and this Notice may be obtained by contacting Lead
18 Plaintiff's Counsel: Juli E. Farris, Keller Rohrbach L.L.P., 1201 Third Avenue, Suite 3200,
Seattle, WA 98101-3052, (800) 360-8904.

19 This Notice does not purport to be a comprehensive description of the Action, the terms of the
20 proposed Settlement or the scheduled Settlement Hearing. For more complete information
21 concerning the Action and the proposed Settlement, you may inspect the pleadings, the
Stipulation of Settlement, and other papers and documents filed with the Court during regular
22 office hours at the Clerk's Office of the United States District Court of Northern District of
California, 450 Golden Gate Avenue, San Francisco, CA 94102. Alternatively, the full
23 Stipulation of Settlement and certain other key pleadings and related documents filed with the
Court in this case are available for viewing at www.kellersettlements.com.

24 **PLEASE DO NOT TELEPHONE THE COURT OR THE CLERK'S OFFICE**
25 **REGARDING THIS NOTICE**

26 Dated: _____, 2008

27 BY ORDER OF THE UNITED STATES
DISTRICT COURT OF THE NORTHERN
28 DISTRICT OF CALIFORNIA

EXHIBIT B

1 LYNN LINCOLN SARKO
JULI E. FARRIS (CSB No. 141716)
2 ELIZABETH A. LELAND
SHANE P. CRAMER
3 KELLER ROHRBACK L.L.P.
1201 Third Avenue, Suite 3200
4 Seattle, WA 98101
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6 GARY A. GOTTO
KELLER ROHRBACK P.L.C.
7 National Bank Plaza
3101 North Central Avenue, Suite 1400
8 Phoenix, AZ 85012
Telephone: (602) 248-0088
9 Facsimile: (602) 248-2822

10 **Attorneys for Lead Plaintiff Gerald del**
11 **Rosario**

12 UNITED STATES DISTRICT COURT
13 NORTHERN DISTRICT OF CALIFORNIA
14 SAN FRANCISCO DIVISION
15

16 IN RE ZORAN CORPORATION
17 DERIVATIVE LITIGATION

No. CV 06-05503 WHA
DERIVATIVE ACTION

18 This Document Relates To:
19

20 ALL ACTIONS
21
22

**NOTICE OF PROPOSED SETTLEMENT OF
DERIVATIVE ACTION AND OF
SETTLEMENT HEARING**

**NOTICE OF PROPOSED SETTLEMENT OF DERIVATIVE ACTION
AND OF SETTLEMENT HEARING**

TO: ALL HOLDERS OF THE COMMON STOCK OF ZORAN CORPORATION ("ZORAN" OR THE "COMPANY"). PLEASE READ THIS NOTICE CAREFULLY AND COMPLETELY. YOUR RIGHTS WILL BE AFFECTED. IF YOU HOLD ZORAN COMMON STOCK FOR THE BENEFIT OF ANOTHER, PLEASE TRANSMIT THIS NOTICE TO SUCH BENEFICIAL OWNER.

I. WHY YOU ARE RECEIVING THIS NOTICE

The purpose of the Notice is to advise you that the above-captioned action relating to Zoran (the "Action") is now pending in the United States District Court of Northern District of California (the "Court") and that the parties thereto have entered into a settlement (the "Settlement"), subject to Court approval, which would fully, finally and forever resolve the Action on the terms and conditions summarized in this Notice.

A hearing (the "Settlement Hearing") will be held on August 18, 2008, at 2:00 p.m., before the Honorable William H. Alsup, at the courthouse of the United States District Court of Northern District of California, 450 Golden Gate Avenue, San Francisco, California, CA 94102, for the purpose of considering: (i) whether the Settlement is fair, reasonable, adequate, and in the best interests of the parties, and should be approved by the Court; (ii) whether to enter a Judgment giving final approval to the Settlement ("Judgment"), dismissing the Action with prejudice, and effectuating the releases described below; (iii) whether Lead Plaintiff's Counsel's application for attorneys' fees and expenses should be granted if the Court approves the Settlement; and (iv) such other necessary and proper matters. It is not necessary that any Zoran shareholder appear at the Settlement Hearing.

The parties believe that the terms of the Settlement are fair, reasonable, and adequate. The parties have concluded that further litigation of the Action could be protracted, disruptive and costly, and have taken into account the uncertainty and risks inherent in any litigation, especially in complex shareholder litigation like the Action. The parties therefore believe it is desirable that the Action be fully and finally settled in the manner described in the Stipulation of Settlement signed by the parties on May 29, 2008 (the "Stipulation of Settlement").

THE FOLLOWING RECITATION DOES NOT CONSTITUTE THE FINDINGS OF THE COURT. IT IS BASED ON THE STATEMENTS OF THE PARTIES AND SHOULD NOT BE UNDERSTOOD AS AN EXPRESSION OF ANY OPINION OF THE COURT AS TO THE MERITS OF ANY OF THE CLAIMS OR DEFENSES ASSERTED BY ANY OF THE PARTIES.

II. WHAT THE ACTION IS ABOUT

The Action is a shareholder derivative case brought derivatively for the benefit of nominal defendant Zoran against certain members of the Company's board of directors and various of its current and former executive officers (collectively, the "Individual Defendants," and together with nominal defendant Zoran, the "Defendants"). The Individual Defendants are Uzia Galil, Levy Gerzberg, Karl Schneider, Raymond A. Burgess, James D. Meindl, James B. Owens, Jr., Arthur B. Stabenow and Camillo Martino.

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1 On May 16, 2006, the Center for Financial Research and Analysis ("CFRA") issued a report
 2 identifying dozens of companies, including Zoran, that were purportedly "at risk" for having
 3 backdated stock options. On May 23, 2006, Zoran announced that the Company's management
 4 and its outside counsel had conducted an internal review with respect to the options grants
 5 identified by CFRA. On July 3, 2006, Zoran announced that its Board of Directors had formed a
 6 Special Committee of outside directors ("Special Committee") to conduct an independent
 investigation into whether there had been any improper backdating of stock option grants since
 Zoran's initial public offering in 1995. The Special Committee retained independent legal
 counsel in connection with the investigation.¹

7 In June and September 2006, three shareholder derivative actions alleging claims under federal
 8 and state law based on backdating of stock options were filed in the Northern District of
 9 California against the Individual Defendants and Zoran as a nominal defendant.² On December 8,
 2006, the Court consolidated the derivative actions into the above-captioned Derivative
 Litigation, and on January 18, 2007, Mr. del Rosario was appointed Lead Plaintiff.³

10 On February 20, 2007, the Company reported that as a result of the Special Committee
 11 investigation, recorded grant dates for a small number of stock option grants would need to be
 12 remeasured for financial accounting purposes. The Board also concluded that there was no
 13 intentional misconduct by Zoran's senior management. Zoran subsequently restated its historical
 financial statements to reflect the adjusted measurement dates, taking a non-cash compensation
 charge of \$11.7 million.

14 Lead Plaintiff filed a Consolidated Complaint in the Derivative Litigation on March 14, 2007. In
 15 the Consolidated Complaint, Lead Plaintiff asserts claims under Section 10(b), Section 14(a) and
 16 Section 20(a) of the Securities Exchange Act of 1934, as well as claims under state law for breach
 17 of fiduciary duty, constructive fraud, abuse of control, corporate waste and gift, gross
 18 mismanagement, unjust enrichment, and rescission. The Complaint alleges, among other things,
 that from at least 1997 through 2005, the Individual Defendants engaged in unlawful or improper
 practices related to Zoran's granting and accounting for stock options (including, but not limited
 to, "backdating" or otherwise misdating or improperly timing option grants, and not complying

19 ¹ Zoran also announced that it had received an informal inquiry from the Securities and Exchange
 20 Commission ("SEC") requesting documents related to its stock option granting practices, as well
 21 as a grand jury subpoena from the office of the U.S. Attorney for the Northern District of
 22 California requesting documents regarding stock options. On November 2, 2007, the SEC
 23 notified Zoran that the Staff's investigation had been terminated and that no enforcement action
 against Zoran or any of its officers, directors or employees has been recommended to the
 Commission. Similarly, no action has been taken by the U.S. Attorney's office with respect to
 Zoran or its officers, directors or employees.

24 ² One of these actions, *NECA-IBEW v. Galil, et al*, No. 06-cv-3742, was voluntarily dismissed on
 25 December 4, 2006. In addition, a putative class action, alleging violations of the Securities
 Exchange Act, based upon the same facts and circumstances giving rise to the Derivative
 Litigation, filed in this Court on August 10, 2006, was voluntarily dismissed on March 20, 2007.

26 ³ A nearly identical state court derivative action based upon the same facts and against
 27 substantially the same defendants is currently pending in Santa Clara Superior Court, entitled *In*
 28 *re Zoran Derivative Litigation*, Case No. 1:06CV073498 (the "State Derivative Litigation"). The
 Santa Clara Superior Court has stayed the State Derivative Litigation in light of this action until
 further order of the Superior Court.

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1 with the Company's option plans); this conduct allegedly resulted in false or misleading financial
 2 statements, other statements and proxies, improper and/or additional compensation expenses and
 3 tax liabilities, and other expenses, including but not limited to those relating to the Special
 4 Committee's investigation and April 20, 2007 restated financials. In addition, Lead Plaintiff has
 subsequently alleged that certain practices and option grants not specifically asserted in the
 Consolidated Complaint violated the Company's stock option plans or are otherwise actionable.

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5 Defendants thereafter moved to dismiss the Derivative Litigation on grounds that Lead Plaintiff
 6 had failed to make a pre-suit demand on Zoran's Board of Directors or to allege facts sufficient to
 7 establish that such a demand would have been futile. The Court ruled that Lead Plaintiff's
 Consolidated Complaint alleged facts sufficient to excuse demand at the pleading stage. The
 8 Court dismissed certain causes of action, however, on standing, statute of limitations, and other
 grounds. Thereafter, Defendants filed Answers and Affirmative Defenses, and the parties
 commenced discovery.

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9 On September 11, 2007, the parties participated in Court-ordered mediation proceedings before
 10 the Honorable Charles A. Legge of JAMS. Thereafter, the parties continued their settlement
 11 discussions and had numerous face-to-face meetings and telephone conferences, with and without
 Judge Legge, in furtherance of a possible resolution of the Derivative Litigation. Among other
 12 things, the parties exchanged extensive information relating to the grants challenged in the
 Derivative Litigation, and Lead Plaintiff conducted substantial discovery, including, but not
 13 limited to, receipt of over one million pages of documents and depositions of key witnesses.

14 By motion dated February 26, 2008, Lead Plaintiff moved for preliminary approval of a proposed
 15 stipulation of settlement involving the cancellation or repricing of certain stock options, corporate
 governance remedial measures and other provisions, including payment of a fee to Lead
 16 Plaintiff's Counsel. By Order dated April 7, 2008, the Court denied the motion for preliminary
 approval.

17 From March through mid-May, the parties completed substantial additional discovery, including
 18 depositions by Lead Plaintiff's Counsel of additional party and non-party witnesses and the
 production to Lead Plaintiff of thousands of additional documents. Thereafter, the parties
 19 engaged in further settlement negotiations, both in person and telephonically. All of the
 negotiations were conducted in good faith and at arm's length, incorporating the guidance
 20 provided by the Court in its April 7 Order. All parties were represented by counsel experienced
 in litigation of this type. As a result of these settlement discussions, the parties entered into the
 21 Stipulation of Settlement on May 29, 2008, which provided the terms for settling the Action.

22 **III. DEFENDANTS' POSITION WITH RESPECT TO SETTLEMENT**

23 The Individual Defendants expressly have denied and continue to deny all charges of wrongdoing
 24 or liability against them arising out of any of the conduct, statements, acts or omissions alleged,
 25 or that could have been alleged, in the Derivative Litigation. The Individual Defendants have
 denied and continue to deny that any of their conduct relating to the granting, exercise or
 26 disclosure of options was wrongful. The Individual Defendants have denied and continue to deny
 that any intentional backdating of stock option grants ever occurred. The Individual Defendants
 27 also have denied and continue to deny the allegations that Zoran suffered damages as a result of
 the conduct alleged in the Derivative Litigation, or that Lead Plaintiff or Zoran have any right of
 28

1 recovery whatsoever. To the contrary, the Individual Defendants have asserted that at all relevant
2 times, they have acted in the utmost good faith and in a manner they reasonably believed to be in
the best interests of Zoran and its shareholders.

3 Nonetheless, the Individual Defendants recognize that defense of the Derivative Litigation has
4 usurped—and would continue to usurp—valuable management time and resources, will continue
to disrupt Zoran's business, and will continue to impose enormous financial burdens on Zoran.
5 The proposed settlement offers to provide Zoran a substantial amount of cash immediately, which
Zoran can use to fund its operations and research and development. The Individual Defendants
6 also have taken into account the uncertainty and risks inherent in any litigation, especially in
7 complex cases such as this one. The Individual Defendants enter into this Stipulation to obtain a
full and final release, directly and/or by operation of law, of all claims that are or could have been
8 asserted against them in the Derivative Litigation, in the State Derivative Litigation, or in any
other federal or state litigation asserting Released Claims. The Individual Defendants further
9 intend that the Judgment entered in the Derivative Litigation will fully incorporate the terms of
this Settlement and will have preclusive effect as to the Released Claims to the fullest extent of
10 any applicable federal or state law. As a result, the Individual Defendants have determined that it
is appropriate and desirable that the Derivative Litigation be settled in the manner and upon the
11 terms and conditions set forth in this Stipulation. The Individual Defendants make this decision
voluntarily, and under no compulsion to do so.

12
13 Nominal Defendant Zoran enters into this Stipulation based on its belief that this Settlement
provides substantial benefit to the Company and its shareholders. Specifically, the Company will
14 receive a multi-million dollar payment and will also benefit from the cancellation and repricing of
certain stock options previously granted to the Individual Defendants. Moreover, the proposed
15 Settlement will permit the Company, its Directors, Officers and employees to focus on serving
Zoran customers and creating value for Zoran shareholders rather than diverting resources to
16 protracted and costly litigation. Finally, the Company believes that this Settlement is desirable
because it provides the Company with a substantial recovery without the risk of an adverse
17 litigation result.

18 **IV. LEAD PLAINTIFF'S POSITION WITH RESPECT TO SETTLEMENT**

19
20 Lead Plaintiff believes that the claims asserted in the Derivative Litigation have merit and that the
evidence developed to date, which includes both information developed by Lead Plaintiff's
21 Counsel independently and in the course of extensive discovery in the litigation, supports those
claims. Lead Plaintiff and Lead Plaintiff's Counsel recognize, however, the expense and length
22 of continued proceedings necessary to prosecute the Derivative Litigation against the Defendants
through trial and, potentially, through appeals. Lead Plaintiff has also taken into account the
23 uncertain outcome and the risk of litigation and inherent delay in resolution of the claims that
result from protracted proceedings. Counsel for the Lead Plaintiff are mindful of the inherent
24 problems of proof and possible defenses to the claims asserted in the derivative lawsuit,
including, but not limited to statutes of limitation, good faith reliance on outside counsel and
25 auditors, failure to satisfy the demand requirement of Rule 23.1, failure to establish any breach of
duty, failure to establish causation, and failure to establish damages.

26
27 Lead Plaintiff and his Counsel also considered: (1) the arguments and evidence regarding
Defendants' good faith reliance on outside counsel and auditors; (2) the size of Zoran's
28

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1 restatement in relation to Zoran's overall revenues and the broad time period covered; (3) the
 2 nature of the circumstances giving rise to the measurement date errors; (4) the scope and depth of
 3 the investigation conducted by the Special Committee, with the assistance of experienced
 4 counsel; (5) the Special Committee's conclusion that no intentional wrongdoing occurred; and (6)
 5 the SEC's decision to terminate its investigation without further action. In order to thoroughly
 6 evaluate each of these claims, Lead Plaintiff and his Counsel engaged in extensive analysis of
 7 evidence produced during the litigation, and the parties exchanged additional information subject
 8 to Rule 408, as part of their settlement negotiations. Lead Plaintiff and his Counsel also weighed
 9 the potential for denial of insurance coverage on some or all of Lead Plaintiff's claims, the
 10 additional costs to the Company were it necessary to litigate those issues, and the uncertainty as
 11 to what damages Zoran would ultimately be entitled to recover even if Lead Plaintiff were to
 12 prevail on some or all of the asserted claims. In particular, Lead Plaintiff weighed the benefit to
 13 Zoran of obtaining nearly \$3.4 million in cash (less awarded attorneys' fees and costs), plus other
 14 consideration, as set forth below, against the possibility that the Individual Defendants might
 15 prevail on dispositive motions or at trial, in which case Zoran would receive no cash or other
 16 consideration from this litigation.

17 Based on Lead Plaintiff's evaluation and the evaluation of his Counsel, Lead Plaintiff has
 18 determined that it is desirable to settle the Derivative Litigation on the terms set forth in this
 19 Stipulation. Lead Plaintiff believes that the proposed Settlement of the Derivative Litigation will
 20 promote the best interests of Zoran and its shareholders and that such terms reflect a fair,
 21 reasonable and adequate outcome of the Derivative Litigation.

22 **V. WHAT THE SETTLEMENT PROVIDES**

23 The terms and conditions of the proposed Settlement are set forth in the Stipulation of Settlement
 24 described above. The Stipulation of Settlement has been filed with the Court. The following is
 25 only a summary of its terms.

26 Under the proposed Settlement, the Company has agreed to implement and/or continue various
 27 corporate governance measures, including measures related to the granting and administration of
 28 stock option grants. These measures are described in the Stipulation of Settlement and represent
 multi-tiered and comprehensive corporate governance practices involving stock option and other
 compensation and related disclosure and accounting policies. As additional consideration for this
 Settlement, a number of the measures previously adopted and the additional measures, identified
 in Attachment A to the Stipulation of Settlement, shall continue for a period of at least three
 years.

In addition, (1) the Individual Defendants shall cause to be paid the amount of \$3,395,000 in cash
 to Zoran, of which \$296,250 will be paid by Levy Gerzberg, \$98,750 will be paid by Karl
 Schneider, and the remainder will be paid to the Company through applicable insurance;
 (2) Defendants Gerzberg, Schneider and Stabenow, under no obligation to do so but in order to
 facilitate this Settlement, have agreed to reprice 101,438 options to the adjusted exercise price
 reflected in the Company's April 20, 2007 restatement of financials; and (3) Defendant Gerzberg
 has voluntarily agreed to cancel certain fully vested options, as calculated in the Stipulation of
 Settlement and using the Black-Scholes methodology with the variable inputs set forth in Exhibit
 A to the Stipulation.

VI. WHAT CLAIMS THE SETTLEMENT WILL RELEASE

Pursuant to the terms of the Stipulation of Settlement, the Action shall be dismissed with prejudice and Lead Plaintiff, on his own behalf individually and derivatively on behalf of Zoran and Zoran's shareholders, and Zoran shall have, and by operation of the Judgment shall be deemed to have, fully, finally, and forever released, relinquished and discharged all Released Claims against the Released Persons and all claims that were made or could have been made against the Released Persons arising out of, relating to, or in connection with the prosecution, defense, Settlement or resolution of the Action, including Unknown Claims. Each of the Released Parties shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished and discharged Lead Plaintiff and Lead Plaintiff's Counsel from all claims (including Unknown Claims), arising out of, relating to, or in connection with the institution, prosecution, assertion, Settlement or resolution of the Action or the Released Claims.

"Released Persons" means each and all of the Released Parties and the Related Persons.

"Released Parties" means Zoran and the Individual Defendants Raymond A. Burgess, Uzia Galil, Levy Gerzberg, Camillo Martino, James D. Meindl, James B. Owens, Jr., Karl Schneider and Arthur B. Stabenow. "Released Parties" also includes the former defendants in this action who were dismissed by the Lead Plaintiff without prejudice, pursuant to a tolling agreement: Aharon Aharon, Paul Goldberg, Isaac Shenberg, and Alex Sinar.

"Related Persons" means each of a Released Party's present or former spouses, heirs, executors, estates, administrators, any entity in which a Defendant and/or any member(s) of that Defendant's immediate family has or had a controlling interest, any members of their immediate families, or any trust of which any Defendant is or was the settler or which is or was for the benefit of any Defendant and/or member(s) of his or her family, each of the Defendants' present and former attorneys, legal representatives, and assigns in connection with the Derivative Litigation, and all past and present directors, officers, agents, underwriters, controlling shareholders, investment bankers, advisors, accountants, auditors, servants, employees, affiliates, predecessors, successors, parents, subsidiaries, divisions, joint ventures and joint venturers, related or affiliated entities, assigns and attorneys for nominal defendant Zoran and their counsel.

"Released Claims" means any and all claims, rights, demands, causes of action, suits, accountings, matters, and issues, including, but not limited to, those arising under federal or state contract, statute, or common law, that have been asserted or could have been asserted against the Released Persons by Zoran or by shareholders suing derivatively on behalf of Zoran, in the Derivative Litigation, based on or arising from the facts, transactions, events, occurrences, acts, disclosures, statements, omissions or failures to act alleged in the Derivative Litigation or closely related thereto, up to and through the date of the filing of the Consolidated Complaint in the Derivative Litigation on March 14, 2007, including all matters alleged in, or which could have been alleged in, any of the complaints filed in the Derivative Litigation (including Unknown Claims).

"Unknown Claims" means any Released Claim which any Settling Party or Related Person does not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might have affected his, her or its Settlement with and

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1 release of the Released Persons, or might have affected his, her or its decision not to object to this
2 Settlement.

3 **VII. WHAT ATTORNEYS' FEES PLAINTIFF'S COUNSEL WILL SEEK**

4 In connection with the Settlement, Plaintiff's Counsel will apply to the Court for an award of
5 actual attorneys' fees and costs incurred in prosecuting the Action, through Final Judgment and
6 any post-Judgment litigation, based upon their usual and customary fees. Lead Plaintiff's
Counsel has agreed not to seek a "fee multiplier," and will seek only his actual costs, estimated to
be no more than \$500,000, and will waive any fees that exceed one million dollars.

7 **VIII. WHEN AND WHERE THE SETTLEMENT HEARING WILL BE HELD AND**
8 **HOW TO OBJECT TO THE SETTLEMENT IF YOU WISH TO DO SO**

9 Prior to deciding whether or not to approve the Settlement, the Court will hold a Settlement
10 Hearing, which the Court may adjourn without further notice other than announcement at such
11 Settlement Hearing or subsequent adjournment. The Court may approve the Settlement with or
without modification agreed to by the parties, and with or without further notice to Zoran's
shareholders.

12 Zoran shareholders who comply with the procedures set forth below for objecting or making an
13 appearance (personally or through counsel) may be heard to the extent allowed by the Court
14 regarding the fairness, reasonableness, and adequacy of the Settlement at the Settlement Hearing
15 to be held before the Honorable William H. Alsup on August 18, 2008, at 2:00 p.m., at the
16 courthouse of the United States District Court of Northern District of California, 450 Golden Gate
Avenue, San Francisco, California, CA 94102. You are not required to retain your own counsel,
but if you choose to do so it will be at your own expense. A shareholder wishing to assert an
objection to the Settlement must, at least fourteen (14) days prior to the Settlement Hearing:

17 (1) file with the Clerk of the Court proof of ownership of Zoran common stock, including
18 the number of shares of Zoran Common Stock held and the date of purchase, and provide a
19 statement that indicates the nature of such objection, any legal support and/or evidence that
20 such shareholder wishes to bring to the Court's attention or introduce in support of such
objection, and any documentation in support of any objection; and

21 (2) simultaneously serve copies of such notice, proof, statement and documentation,
22 together with copies of any other papers or briefs such shareholder files with the Court, in
23 person or by mail, upon counsel listed below, provided that if service is made by mail,
electronic mail and facsimile service shall be made on counsel listed below no later than
fourteen (14) days before the date of the Settlement Hearing:

24 Juli E. Farris
25 Keller Rohrback L.L.P.
26 1201 Third Avenue, Suite 3200
27 Seattle, WA 98101-3052
28 *Counsel for Lead Plaintiff*

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Susan Muck
 Fenwick & West LLP
 555 California Street, Suite 1200
 San Francisco, CA 94104
*Counsel for Aharon Aharon, Raymond A. Burgess, Uzia Galil, Paul
 Goldberg, James D. Meindl, James B. Owens, Jr., Isaac Shenberg,
 Alex Sinar, and Arthur Stabenow*

Steven Kaufhold
 Akin Gump Strauss Hauer & Feld LLP
 580 California Street, Suite 1500
 San Francisco, CA 94104-1036
Counsel for Nominal Defendant Zoran Corporation

John Dwyer
 Cooley Godward Kronish LLP
 Five Palo Alto Square
 3000 El Camino Real
 Palo Alto, CA 94306
Counsel for Dr. Levy Gerzberg, Ph.D.

John Hemann
 Morgan, Lewis & Bockius LLP
 One Market, Spear Street Tower
 San Francisco, CA 95105
Counsel for Karl Schneider

Sara B. Brody
 Heller Ehrman LLP
 333 Bush Street
 San Francisco, CA 94104
Counsel for Camillo Martino

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Any shareholder who does not timely make his, her, or its objection to the Settlement shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, reasonableness, or adequacy of the proposed Settlement, the Plaintiff's application for attorneys' fees and expenses, and shall otherwise be bound by the Judgment to be entered on the releases given.

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counsel by mail, provided facsimile service is made on counsel listed above by no later than five (5) days before the date of the Settlement Hearing. Any objector who does not timely file and serve a notice of intention to appear in accordance with this paragraph shall not be permitted to be heard at the Settlement Hearing, except upon a showing of good cause and excusable neglect.

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In re Zoran Corporation Derivative Litigation
c/o The Garden City Group, Inc.
P.O. Box. XXXX
Seattle, WA 98104

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X. HOW TO GET FURTHER INFORMATION

Further information regarding the Action and this Notice may be obtained by contacting Lead Plaintiff's Counsel: Juli E. Farris, Keller Rohrback L.L.P., 1201 Third Avenue, Suite 3200, Seattle, WA 98101-3052, (800) 360-8904.

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**PLEASE DO NOT TELEPHONE THE COURT OR THE CLERK'S OFFICE
REGARDING THIS NOTICE**

Dated: _____, 2008

BY ORDER OF THE UNITED STATES
DISTRICT COURT OF THE NORTHERN
DISTRICT OF CALIFORNIA

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